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SUBJECT: BRAZIL: CEO Forum recommendations report to USG and
Brazilian government officials October 11, 2007

¶1. (U) SUMMARY: The Brazilian and American CEOs participating in the CEO Forum reported their recommendations to President Lula's Chief of Staff Dilma Rousseff, Minister of Development, Industry and Trade (MDIC) Miguel Jorge, Commerce Secretary Carlos Gutierrez and National Economic Council Director Al Hubbard on October 11. The CEOs highlighted that their priority recommendation was completion of a bilateral tax treaty between Brazil and the United States and development of a "benchmarking" system to evaluate investment climate improvements. The CEOs also presented recommendations supporting a rapid conclusion of the Doha WTO round; mechanisms to settle investment disputes; development of viable infrastructure projects and modalities; improvement of technology sharing and communication regarding investment opportunities; partnerships in education and workforce development; increased joint research and development; and amelioration of impediments to trade, investment and travel flows. END SUMMARY

¶2. (U) Josue Gomes da Silva, President of Coteminas and Chair of the Brazilian Section, welcomed the government representatives with a note to "be careful what you wish for" in encouraging Brazilian and American CEOs together to develop joint recommendations. He acknowledged the recommendations were ambitious, but noted the CEOs agreed, "the danger is not to reach too far and miss, but to reach too near and make it." He highlighted that the most important priority recommendations for the Forum was to achieve a bilateral tax treaty. He underlined that the CEOs wished to emphasize that this treaty would be of enormous reciprocal benefit to both countries' companies and that CEOs very much want an accord signed and implemented by May or June 2008 when next the CEO Forum meets.

¶3. (U) Gomes da Silva continued that the other priority recommendation the Forum wished to highlight was the development of "benchmarks" or best practices with particular emphasis on the regulatory framework. The CEOs would welcome "harmonization" toward a set of best regulatory practices in order to increase trade and investment between our countries.

TRADE AND ECONOMIC GROWTH

¶4. (U) Tim Solso, CEO of Cummins Inc. and Chair of the US Section underlined that the themes President Lula had offered at the dinner hosted for the Forum participants - peace, democracy and free, just trade - were themes the CEOs supported. He noted the importance of competitiveness in a global market that includes China and India. In that light, he again emphasized the need for a bilateral tax treaty and underlined CEO support for conclusion of the WTO Doha Round. He briefed that CEOs were not prepared to go as far as recommending a bilateral investment treaty (BIT) or a free trade area agreement (FTA), but did strongly support international arbitration of investment disputes. Solso noted Forum desire for more coherence in tax structures and briefed that the visa discussion had been very emotional, with CEOs seeing visas as a barrier to trade and many wishing to do away with the reciprocal visa system. Finally, he noted CEO calls for tax incentives for education and technology development. He noted that US CEOs want to help their partners to be more competitive, but should not have to "drag" them along ("not our weight to carry"). Gomes da Silva added that his CEOs believe they must help the other blocks that they work

with (for example, Mercosul), because integration is huge concern for all society. Jorge Gerdau, CEO of Grupo Gerdau, offered that in addition, Brazil cannot take on China alone, but if all the Americas work together, anything is possible. Gerdau welcomed development of a regional infrastructure initiative that would include the World Bank, BNDES and the private sector. He highlighted positive cooperation on biofuels.

COMPETITIVENESS

¶5. (U) Marco Stefanini, President of Stefanini IT Solutions, noted Forum recommendations in the area of education (particularly English language learning), youth skill development and exchange programs. Craig Barrett, Chairman of the Board of Intel noted information technology, investment in research and development, infrastructure (with particular emphasis on spectrum allocation and broadband development), and harmonization of venture capital standards are all important.

¶6. (U) Rick Wagoner, CEO of General Motors turned to biofuels, welcoming the growing US and Brazilian production, calling for joint research, particularly in cellulosic technologies, that would yield more energy and would be better for the environment. A Brazilian CEO noted the research and development centers in Brazil and underlined the importance of intellectual property rights protection.

CEO CONCLUDING REMARKS

¶7. (U) Josue Gomes da Silva noted that the Forum wanted to meet every six months with governments to develop metrics and evaluate progress. Tim Solso noted that the CEOs that have adopted each subject will develop one or two, only, of the suggestions under each heading, in order to develop metrics and come back to the governments to report: "Here is what we are doing; what are you doing?" Otherwise, CEOs feel nothing concrete will be accomplished.

He emphasized that "the meat is going to be what we do now until six months from now. The crux is what we can concretely develop to get done after this too-rushed day."

GOVERNMENT REACTIONS

BRASILIA 00002087 002 OF 002

¶8. (U) MDIC Minister Miguel Jorge noted the Forum had started an important, never done before process. The most important factor, for him, was that companies had engaged to work together and to speak together to governments. Casa Civil head Dilma Rousseff spoke at length and with great enthusiasm. She said the Forum demonstrated the ambition to create progress. She agreed on the importance of addressing taxes, "whether or not a tax treaty is the right way." Rousseff noted "we live in similar worlds," and regulatory issues and investment questions are good objectives to address, even if the challenge is to find concrete solutions in practice. She underlined that the Brazilian government wants to increase competitiveness, although she stressed she would not imply the Americas are currently incapable of competing against Asia. Rousseff underlined that, in the next few years, increasing international investments was definitely in Brazil and the US' interests. She noted the relationship between Brazil and the US was a strategic one and she had great hopes for the future.

¶9. (U) Rousseff lauded the Brazil-US biofuels partnership and agreed with the Forum on the need to increase cooperative research and to increase exchanges on bio-combustibles. She highlighted access to education as one of the most difficult problems a government faces. She noted that universal education was an important goal for the Brazilian government, and looked forward to drawing on the expertise of the United States in this area. She spoke in support of technological exchange as well. Rousseff noted the importance of respect for intellectual property rights and affirmed that contracts must be respected. She concluded by underlining that democracy and fair trade are linked concepts for the Brazilian government.

¶10. (U) Secretary Gutierrez welcomed the CEO Forum report and noted the US continues to learn much from other parts of the world. He lauded the CEOs' proposal to prioritize and develop specific ideas from among the report's recommendations. Secretary Gutierrez affirmed the Forum had been an enormous success because it was focused on priorities, metrics and further developing results-based recommendations. Regarding CEO Forum language on "harmonization," Gutierrez cautioned CEOs to focus instead on "pragmatic" steps for regulatory simplification that would be most likely to succeed. He noted governments did not want to go in the direction of "harmonization" in the sense that EU internal regulations are

"harmonized" among EU member states. He endorsed "pragmatism with a strategic view."

¶11. (U) The Commerce Secretary noted that improving education is not a short-term goal and noted the United States has its own challenges in this area. He added that, if we had Americans who spoke Portuguese in the next generation, this would be a true measure of success in demonstrating the partnership goes both ways.

¶12. (U) NEC Director Hubbard said he noted six particular challenges among the CEO recommendations: 1. Visas - we need to figure out how to improve within the next six months with given resources; 2. Tax treaty - he urged CEOs on both sides to continue to pressure governments, otherwise "the bureaucrats will talk forever;" 3. Doha - he emphasized business pressure on governments was crucial for coming to closure; 4. Bilateral investment treaty - Hubbard acknowledged understanding why CEOs had chosen to focus on dispute settlement mechanisms rather than a full BIT, but urged them to keep the BIT idea on the table; 5. Tax systems - he encouraged Brazil to fix its tax system and noted US tax system problems, including the highest corporate tax rate outside Japan. He assured CEOs that the executive branch intended to have a proposal to improve the US tax system by the time of the State of the Union. "I hope you will, too;" and 6. Education - he noted this was a knotty challenge for both sides.

¶13. (SBU) COMMENT: The Forum was widely viewed as a success among government and business participants. Embassy was particularly impressed by the strength of Dilma Rousseff's enthusiastic support, both in front of the CEOs and with the press after the Forum concluded. The head of Casa Civil is an influential figure in deciding priorities and ensuring action in the Brazilian government, and her support augers well for positive movement on joint private sector priorities. END COMMENT

¶14. (U) The delegation has cleared this message.
SOBEL